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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001594

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SUBJECT: CROSS-STRAIT TRADE - TAIWAN'S SURPLUS GROWS,
INFLUENCE SHRINKS

REF: TAIPEI 1191

Classified By: AIT Director Douglas H. Paal, Reason 1.5 b

Summary

1. (C) Taiwan's exports to the PRC grew by 27.2 percent in 2004 as its imports from the Mainland grew even more rapidly at 52.2 percent. Components shipped to Taiwan firms assembling electronic consumer goods in the PRC dominated Taiwan's exports at 57 percent, but similar products also made up the majority of Taiwan's PRC imports. The PRC's share of Taiwan's total exports rose again but Taiwan's share of PRC imports fell. It appears likely that South Korea will overtake Taiwan as the number two source of PRC imports in 2005. These trends could facilitate the PRC's ability to use economic policy to apply pressure to Taiwan's government. End summary.

Exports Rising, Imports Rising Faster

2. (U) Taiwan-PRC trade statistics for 2004 released by Taiwan's Board of Foreign Trade (BOFT) show that trade between Taiwan and the China grew by a record 33.1 percent, the fastest pace since BOFT began tracking such data in 1993. Export growth was impressive, rising by 27.2 percent to USD 45.0 billion. Only 1993 saw faster growth in exports to the PRC. However, the percentage increase in imports was even higher at 52.2 percent to USD 16.7 billion. Even as Taiwan's trade surplus with the PRC continues to grow in dollar terms, it is shrinking as a percentage of total Taiwan-PRC trade.

Electronic Components Still Lead

3. (U) Nearly 57 percent of Taiwan's exports to the PRC worth USD 25.4 billion consisted of electronics components sold mainly to Taiwan firms assembling electronics consumer goods in the PRC. According to Taiwan's Market Intelligence Center, a high-tech industry research firm, about 73 percent of IT equipment manufactured by Taiwan firms, including products in which Taiwan is a world leader such as notebook PCs, TFT-LCD monitors, switches and motherboards, were assembled in the PRC in 2004. More surprisingly, the BOFT statistics indicate that 54.5 percent of Taiwan's imports from the PRC (or USD 9.1 billion) were also made up of electronics components. PRC components exported to Taiwan are generally produced by more labor-intensive, less-technologically advanced means than the Taiwan exports. The fact that these components dominate trade in both directions indicate the complexity and high-level of integration of high-tech industries across the Strait.

Shifting Balance

4. (U) Taiwan's dependence on the PRC as a market for exports continued to grow. The PRC accounted for 25.8 percent of Taiwan's exports last year, compared to 24.5 percent in 2003 and 22.6 percent in 2002. If exports to Hong Kong are included, China accounts for approximately 35 percent of Taiwan's imports. However, Taiwan's share of the PRC's imports dropped last year from 12.0 percent in 2003 to 11.5 percent in 2004 as South Korea's share grew from 10.5 percent to 11.1 percent. South Korea was the third largest source of PRC imports after Taiwan in 2004, but stands to overtake Taiwan in 2005. Korean firms, which tend to import Korean-produced inputs just as Taiwan firms buy Taiwan-made components, are investing in Mainland China at a faster pace. PRC data show that Korean firms contracted USD 13.9 billion worth of investment in the PRC in 2004, compared to USD 9.31 billion for Taiwan firms (reported reftel). South Korea's imports to the PRC already surpassed Taiwan's in the first month of 2005.

Comment: Future Implications

15. (C) If these trends continue, the economies of Taiwan and the PRC will grow more and more closely linked. Taiwan's economy depends on the PRC not only as a production base but increasingly as a final market for exports, and this will continue to grow. However, the PRC's relative dependence on Taiwan could at the same time diminish as other countries strive to compete in the PRC market. If countries like South Korea increasingly reduce Taiwan's relative importance as a source of investment and imports, the PRC will have a freer hand to use its economic policy towards Taiwan for political ends. These trends are likely to increase both the PRC's ability and willingness to use economic means to pressure Taiwan and, at the same time, diminish Taiwan's ability to resist them. End comment.

16. (U) BOFT cross-Strait trade data for 1993-2004 will be posted on the AIT intranet site at
http://taipei.state.gov/ait_s/econ/econ_web/e_condata_main.htm
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